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Master's thesis
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Abstract

Nowadays commodity price risk is an important element of the world's functionality. It influences both producers and consumers of commodities. In 2008 and 2009 commodity markets have been highly volatile.

Forecasting of, or hedging against these changes in commodity prices is important for a company to be able to prepare for these changes or be prepared to take advantage of them. Usually price estimates form the base for e.g. forward pricing decisions and risk management planning.

The goal of this thesis is to study what different techniques are used to forecast commodity prices and how it is currently carried out in a global manufacturing company. In addition, price risk management of global manufacturing companies' is compared to risk management theory. In the study KONE is used as case example of a global manufacturing company. Differences between practice and theory are examined with the aid of the company. Comparisons are made in order to identify suitable themes for further research.

The research is conducted as a case study, more accurately as an action research. Research material was gathered by three theme interviews, as well as actively participating in the daily work of KONE's sourcing organization, and supported by company documents.

The forecasting at KONE is done by judgmental forecasting. The benefit of this approach is its flexibility, ability to incorporate special information, and human judgment. Lack of rigour, compared to more mathematical approaches, is the main limitation of judgmental forecasting. The most challenging feature of commodity forecasting is that the quality of the information on commodity markets, especially for steel markets, is often late and of poor accuracy.

Currently at KONE commodity price risk is managed mainly through contractual means and the company is not hedging any of its commodity exposures. This is because of the fact that direct purchases of metals are few and the volumes of direct and indirect metal purchases are relatively low.

	forecasting, judgmental forecasting, commodities, metals, risk management, hedging
Further information	